

**2000****California Adjustments —  
Nonresidents or Part-Year Residents****CA (540NR)****Important:** Attach this schedule directly behind Form 540NR, Side 2.

Name(s) as shown on return

Social security number

**Part I Residency Information.** You must complete all lines that apply to you and your spouse.**During 2000**

- |  | Yourself | Spouse |
|--|----------|--------|
| <b>1 a</b> I was domiciled in (enter state) .....  | _____    | _____  |
| <b>b</b> I was in the military and stationed in (enter state or country) .....                         | _____    | _____  |
| <b>2</b> I became a California resident (enter the state of prior residence and date of move) .....    | _____    | _____  |
| <b>3</b> I became a nonresident (enter new state of residence and date of move) .....                  | _____    | _____  |
| <b>4</b> I was a nonresident of California the entire year (enter state or country of residence) ..... | _____    | _____  |
| <b>5</b> The number of days I spent in California (for <b>any</b> purpose) is: .....                   | _____    | _____  |
| <b>6</b> I owned a home/property in California (enter "Yes" or "No") .....                             | _____    | _____  |

**Before 2000:**

- |  |       |       |
|--|-------|-------|
| <b>7</b> I was a California resident for the period of (enter dates) ..... | _____ | _____ |
| <b>8</b> I entered California on (enter date) .....                        | _____ | _____ |
| <b>9</b> I left California on (enter date) .....                           | _____ | _____ |

**Part II Income Adjustment Schedule****Section A — Income**

	A Federal Amounts (taxable amounts from your federal return)	B Subtractions See instructions	C Additions See instructions	D Total Amounts Using CA Law As If You Were a CA Resident (subtract column B from column A; add column C to the result)	E CA Amounts (income earned or received as a CA resident and income earned or received from CA sources as a nonresident)
<b>7</b> Wages, salaries, tips, etc. See instructions before making an entry in column B or C <b>7</b>					
<b>8</b> Taxable interest income <b>8</b>					
<b>9</b> Ordinary dividends <b>9</b>					
<b>10</b> State tax refund. Enter the same amount in column A and column B <b>10</b>					
<b>11</b> Alimony received <b>11</b>					
<b>12</b> Business income or (loss) <b>12</b>					
<b>13</b> Capital gain or (loss) <b>13</b>					
<b>14</b> Other gains or (losses) <b>14</b>					
<b>15</b> Total IRA distributions. See instructions. (a) _____ (b) _____					
<b>16</b> Total pensions and annuities. See instructions. (a) _____ (b) _____					
<b>17</b> Rental real estate, royalties, partnerships, S corporations, trusts, etc. <b>17</b>					
<b>18</b> Farm income or (loss) <b>18</b>					
<b>19</b> Unemployment compensation <b>19</b>					
<b>20</b> Social security benefits (a) _____ (b) _____					
<b>21</b> Other income. <div style="display: flex; align-items: flex-start;"> <div style="flex: 1;"> <b>a</b> California lottery winnings  <b>b</b> Disaster loss carryover from FTB 3805V  <b>c</b> Federal NOL (Form 1040, line 21)  <b>d</b> NOL carryover from FTB 3805V  <b>e</b> NOL from FTB 3805Z, FTB 3806, or FTB 3807  <b>f</b> Other (describe) _____ </div> <div style="flex: 1; text-align: center; margin: 0 10px;"> <div style="font-size: 3em; line-height: 1;">{</div> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="margin-bottom: 2px;">a _____</div> <div style="margin-bottom: 2px;">b _____</div> <div style="margin-bottom: 2px;">c _____</div> <div style="margin-bottom: 2px;">d _____</div> <div style="margin-bottom: 2px;">e _____</div> <div style="margin-bottom: 2px;">f _____</div> </div> <div style="font-size: 3em; line-height: 1;">}</div> </div> <div style="flex: 1;"> <div style="margin-bottom: 2px;">a _____</div> <div style="margin-bottom: 2px;">b _____</div> <div style="margin-bottom: 2px;">c _____</div> <div style="margin-bottom: 2px;">d _____</div> <div style="margin-bottom: 2px;">e _____</div> <div style="margin-bottom: 2px;">f _____</div> </div> </div>					
<b>22 a Total:</b> Combine line 7 through line 21 in each column. Continue to Side 2 ... <b>22a</b>					

# Income Adjustment Schedule

## Section B — Adjustments to Income

	A Federal Amounts (taxable amounts from your federal return)	B Subtractions See instructions	C Additions See instructions	D Total Amounts Using CA Law As If You Were a CA Resident (subtract column B from column A; add column C to the result)	E CA Amounts (income earned or received as a CA resident and income earned or received from CA sources as a nonresident)
<b>22 b</b> Enter totals from Schedule CA (540NR), Side 1, line 22a, column A through column E . <b>22b</b>					
<b>23</b> IRA deduction . . . . . <b>23</b>					
<b>24</b> Student loan interest deduction . . . . . <b>24</b>					
<b>25</b> Medical savings account deduction . . . . . <b>25</b>					
<b>26</b> Moving expenses . . . . . <b>26</b>					
<b>27</b> One-half of self-employment tax . . . . . <b>27</b>					
<b>28</b> Self-employed health insurance deduction <b>28</b>					
<b>29</b> Keogh/self-employed SEP/SIMPLE plans <b>29</b>					
<b>30</b> Penalty on early withdrawal of savings . . <b>30</b>					
<b>31 a</b> Alimony paid. <b>(b)</b> Enter recipient's: SSN _____ - _____ - _____ Full name _____ . <b>31a</b>					
<b>32</b> Add line 23 through line 31a in each column, A through E . . . . . <b>32</b>					
<b>33 Total.</b> Subtract line 32 from line 22b in each column, A through E. See instructions. <b>33</b>					
<b>34</b> Ratio. Divide line 33, column E by line 33, column D. Carry the decimal to five places. Then round it to four places by dropping amounts 4 and under (.44454 becomes .4445) and rounding up to the next number for amounts 5 and over (.44455 becomes .4446). This number may be greater than 1.0000. Enter the result here and on Form 540NR, line 25a. <b>Note:</b> If the result is zero or less, enter -0- on Form 540NR, line 25a . . . . . <b>34</b> _ . _ _ _ _					

## Part III Adjustments to Federal Itemized Deductions

<b>35</b> Federal itemized deductions. Add the amounts on federal Schedule A (Form 1040), lines 4, 9, 14, 18, 19, 26, and 27 (or Schedule A (Form 1040NR), lines 3, 7, 8, 15, and 16) . . . . . <b>35</b>	
<b>36</b> Enter total of federal Schedule A, line 5 (state and local income tax <b>and</b> State Disability Insurance) and line 8 (foreign taxes <b>only</b> ) . . . . . <b>36</b>	
<b>37</b> Subtract line 36 from line 35 . . . . . <b>37</b>	
<b>38</b> Other adjustments including California lottery losses. See instructions. Specify _____ <b>38</b>	
<b>39</b> Combine line 37 and line 38 . . . . . <b>39</b>	

### 40 California itemized deductions

**Is your federal AGI (Form 540NR, line 13)  
more than the amount shown below for  
your filing status?**

Single or married filing separate . . . . . \$124,246  
Married filing joint or qualifying  
widow(er) . . . . . \$248,494  
Head of household . . . . . \$186,370

**NO.** Transfer the amount on line 39 to line 40.  
**YES.** Complete the Itemized Deductions Worksheet  
in the instructions for Schedule CA (540NR),  
line 40.

**Is the amount you entered on line 40 more  
than your standard deduction below?**

Single or married filing separate . . . . . \$2,811  
Married filing joint, head of household, or  
qualifying widow(er) . . . . . \$5,622

**YES.** Transfer the amount on line 40  
to Form 540NR, line 18.  
**NO.** Enter your **standard deduction** on  
Form 540NR, line 18.

**40** \_\_\_\_\_

**2000****Depreciation and Amortization Adjustments**

Do not complete this form if your California depreciation amounts are the same as federal amounts.

**3885A**

Name(s) as shown on return

Business or activity to which Form FTB 3885A relates

Social security number

**Part I Identify the activity as passive or nonpassive.** (See instructions.)

- 1 ☐ This form is being completed for a passive activity. ☐ This form is being completed for a nonpassive activity.

**Part II Election to Expense Certain Tangible Property (IRC Section 179).**

- 2 Enter the amount from line 12 of the worksheet in the instructions ..... **2**

**Part III Depreciation**

	(a) Description of property placed in service during 2000	(b) Date placed in service	(c) California basis for depreciation	(d) Method	(e) Life or rate	(f) 2000 California depreciation deduction
<b>3</b>						

- 4 Add the amounts on line 3, column (f) ..... **4**

- 5 California depreciation for assets placed in service prior to 2000 ..... **5**

- 6 Total California depreciation from this activity. Add the amounts on line 2, line 4, and line 5 ..... **6**

- 7 Total federal depreciation from this activity. Enter depreciation from your federal Form 4562, line 21 ..... **7**

- 8 **a** If line 6 is more than line 7, enter the difference here and see instructions ..... **8a**

- b** If line 6 is less than line 7, enter the difference here and see instructions ..... **8b**

**Part IV Amortization**

	(a) Description of cost amortizable during 2000	(b) Date placed in service	(c) California basis for amortization	(d) Code section	(e) Period or percentage	(f) 2000 California amortization deduction
<b>9</b>						

- 10 Total California amortization from this activity. Add the amounts on line 9, column (f) ..... **10**

- 11 California amortization of costs that began before 2000 ..... **11**

- 12 Total California amortization from this activity. Add the amounts on line 10 and line 11 ..... **12**

- 13 Total federal amortization from this activity. Enter amortization from your federal Form 4562, line 42 ..... **13**

- 14 **a** If line 12 is more than line 13, enter the difference here and see instructions ..... **14a**

- b** If line 12 is less than line 13, enter the difference here and see instructions ..... **14b**

**2000****California Capital Gain or Loss Adjustment**

Do not complete this schedule if all of your California gains (losses) are the same as your federal gains (losses).

**D**

	(a) Description of property (identify S corporation stock) Example 100 shares of "Z" (S stock)	(b) Sales price	(c) Cost or other basis	(d) Loss. If (c) is more than (b), subtract (b) from (c)	(e) Gain. If (b) is more than (c), subtract (c) from (b)
<b>1a</b>					
<b>1b</b>					

- 2 Net gain or (loss) shown on California Schedule(s) K-1 (541, 565, 568, and 100S) ..... **2**

- 3 Capital gain distributions (federal Form 1099-DIV, box 2a minus box 2d) ..... **3**

- 4 Total 2000 gains from all sources. Add column (e) amounts of line 1a, line 1b, line 2, and line 3 ..... **4**

- 5 2000 loss. Add column (d) amounts of line 1 and line 2 ..... **5**

- 6 California capital loss carryover from 1999, if any. See instructions ..... **6**

- 7 Total 2000 loss. Add line 5 and line 6 ..... **7**

- 8 Combine line 4 and line 7. If a loss, go to line 9. If a gain, go to line 10 ..... **8**

- 9 If line 8 is a loss, enter the smaller of: (a) the loss on line 8; **or**

- (b) \$3,000 (\$1,500 if married filing a separate return). See instructions ... **9**

- 10 Enter the amount from federal Form 1040, line 13 ..... **10**

- 11 Enter the California gain from line 8 or loss from line 9 ..... **11**

- 12 **a** If line 10 is more than line 11, enter the difference here and on Schedule CA (540 or 540NR) line 13, col. B ..... **12a**

- b** If line 10 is less than line 11, enter the difference here and on Schedule CA (540 or 540NR), line 13, col. C ..... **12b**

# Instructions for Schedule CA (540NR)

These instructions are based on the Internal Revenue Code (IRC) as of January 1, 1998, and the California Revenue and Taxation Code (R&TC).

## General Information

### Differences Between California and Federal Law

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170).

### New differences between California and federal law for 2000:

- Education assistance. See the instructions for line 7.
- Interest received in conjunction with the refund of the smog impact fee. See the instructions for line 8.
- Reparation payments for individuals who were required to perform forced or slave labor during World War II. See the instructions for line 21f.

### California law does not conform to federal law for:

Material participation in rental real estate activities. Beginning in 1994, and for federal purposes only, rental real estate activities conducted by persons in a real property business are not automatically treated as passive activities. Get form FTB 3801, Passive Activity Loss Limitations, for more information.

### California law is the same as federal law in the following areas:

IRC Section 179 expense deduction. The maximum deduction amount is \$20,000 for 2000.

Self-employed health insurance deduction. The percentage for 2000 is 60%.

Roth IRAs. The contribution rules and distribution rules follow federal law.

## Purpose

Use this schedule to identify income being taxed by California; and to compute the ratio of your **California adjusted gross income (AGI) to total AGI from all sources using California law**; and to adjust your federal itemized deductions using California law. The parts of the ratio are defined as follows:

- **Total AGI from all sources using California law** is all of your income from all sources, including income from within and outside California. Compute your total AGI from all sources by adjusting federal AGI for the differences between federal and California law.
- **California AGI** is:
  - ◆ All income from all sources (inside and outside California) for any part of the year during which you were a California resident; and
  - ◆ All income from California sources while you were a nonresident of California.

Once you compute the ratio, transfer the ratio to Form 540NR to determine your California nonresident or part-year resident tax liability.

## Specific Line Instructions for PART I Residency Information

Answer all the questions in this part for you and your spouse. If a question does not apply, enter "N/A" on the line for the answer. For more information get:

- FTB Pub. 1031, Guidelines for Determining Resident Status; and
- FTB Pub. 1032, Tax Information for Military Personnel

### Line 1 –Domicile and military

If you served in the military, your state of domicile is generally the state where you were living when you first entered military service. If you were not in the military, your domicile is the place you consider your permanent home, the place to which you, whenever absent, intend to return.

### Line 5 –The number of days I spent in CA

The total number of days in California should include all days in California for any purpose including residency, business, and vacation.

## Specific Line Instructions for PART II Income Adjustment Schedule

### Column A –Federal Amounts

Enter all taxable amounts shown on your federal return on the corresponding lines in column A.

If you are married filing separate under either exception described in the instructions for Form 540NR and are filing a separate California return, enter in column A the amounts you would have reported on a separate federal return. Attach a statement to the return showing how the income and expenses were split between you and your spouse.

### Line 7 through Line 21

Enter on line 7 through line 21 the same amounts you entered on federal Form 1040, line 7 through line 21 (or Form 1040A, line 7 through line 14b; Form 1040EZ, line 1, line 2, and line 3; or Form 1040NR, line 8 through line 21 for the same types of income).

Also enter the following if applicable:

- The total IRA distribution received on line 15(a);
- The total pension or annuity distribution received on line 16(a); and
- The total social security retirement benefit received on line 20(a).

If you used Form 1040A, refer to line 11a, line 12a, and line 14a. If you used Form 1040NR, refer to line 16a and line 17a.

### Line 22a –Total

Combine the amounts on line 7 through line 21. Enter the total on line 22a. This number should be the same as the amount on federal Form 1040, line 22 (or Form 1040A, line 15; Form 1040EZ, line 4; or Form 1040NR, line 23).

### Line 22b –Balance Carried Forward

Enter on line 22b the total from Side 1, line 22a, column A.

### Line 23 through Line 30

Enter the same amounts you entered on federal Form 1040, line 23 through line 30; Form 1040A, line 16 and line 17; or Form 1040NR, line 24 through line 30.

### Line 31a and Line 31b

Enter on line 31a the same amount you entered on federal Form 1040, line 31a. Enter on line 31b the social security number and full name of the person to whom you paid alimony.

### Line 32

Add line 23 through line 31a. This amount should be the same as the amount on federal Form 1040, line 32 (or Form 1040A, line 18; or Form 1040NR, line 32). However, if you made any of the adjustments described in the instructions for federal Form 1040, line 32, or if you claimed the foreign housing deduction from federal Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, enter the amount from Form 1040, line 32 on this line.

If you used Form 1040NR and reported an amount on Form 1040NR, line 31 for excluded scholarship and fellowship grants, enter the amount from Form 1040NR, line 32 on this line.

### Line 33 –Total

Subtract line 32 from line 22b. This amount should be the same as the amount on federal Form 1040, line 33 (or Form 1040A, line 19; or Form 1040EZ, line 4; or Form 1040NR, line 33).

## Column B and Column C — Subtractions and Additions

Use these columns to enter subtractions and additions to federal amounts in column A that are necessary because of the differences between California and federal law. Enter all amounts on line 7 through line 32 as positive numbers.

**Do not** enter in column B or column C income earned outside California during periods of nonresidency.

**Note:** If you are a nonresident alien, use column B and column C to adjust federal AGI to include income from all sources, even if you were not required to report it on your federal return. California does not have special rules limiting total AGI from all sources to U.S. source or effectively connected income of nonresident aliens.

You may need one of the following FTB publications to complete column B and column C:

- 1001, Supplemental Guidelines to California Adjustments;
- 1005, Pension and Annuity Guidelines;
- 1031, Guidelines for Determining Resident Status; or
- 1032, Tax Information for Military Personnel.

To order a publication or form, see the back cover of your tax booklet.

### Line 7 –Wages, Salaries, Tips, etc.

Generally, you will not make any adjustments on this line. If you did not receive any of the following types of income, make no entry on this line in either column B or column C.

**Active duty military pay.** Special rules apply to active duty military taxpayers. Get FTB Pub. 1032 for more information.

**Ride-sharing benefits or sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act.** California excludes these items from income. Enter in column B the amount of these benefits included in the amount in column A.

**Income exempted by U.S. tax treaties (unless specifically exempt for state purposes also).** If you excluded this income from your federal return, enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion under IRC Section 911, see the instructions for line 21. Get FTB Pub. 1001 for more information.

**Exclusion for compensation from exercising a California Qualified Stock Option (CQSO).** To be eligible for this exclusion your earned income from the corporation granting the CQSO must be \$40,000 or less; the market value of the options granted to you must be \$100,000 or less; the total number of shares must be 1,000 or less; and the corporation issuing the stock must designate that the stock issued is a California qualified stock option at the time the option is granted. If you included in federal income an amount qualifying for this exclusion, enter that amount in column B.

**Employer-provided meals.** California law has not conformed to the federal provision that allows employees to exclude (and employers to deduct) the value of meals solely because the meals were provided to more than 50% of the employees. Check with your employer if you think that this might apply to you. If it does, enter in column C the amount of these benefits that were excluded for federal tax purposes.

**Education Assistance.** Generally, California and federal law are the same regarding the exclusion from wages, up to \$5,250, for employer-provided education assistance. However, included as qualified expenses for California purposes, are the expenses for an employee to take graduate level courses in pursuit of a law, business, medical, or other advanced academic or professional degree. The graduate level courses must have begun on or after 1/1/00. Under federal law, graduate level courses do not qualify for the exclusion.

Enter in column B the qualified expenses paid or incurred by your employer for you to take such graduate level courses.

#### Line 8 – Taxable Interest Income

If you did not receive any of the kinds of income listed below, do not make an entry on this line in either column B or column C. Otherwise, enter in column B, the interest that you received from:

- U.S. saving bonds (except for interest from series EE U.S. savings bonds issued after 1989 that qualified for the Education Savings Bond Program exclusion);
- U.S. Treasury Bills, notes and bonds;
- Any other bonds or obligations of the United States and its territories; and
- The state of California in conjunction with the refund of the smog impact fee if you were not allowed to deduct the smog impact fee when it was paid.

Get FTB Pub. 1001 if you received interest income from the following sources:

- Loans made in an enterprise zone (EZ), or the former Los Angeles Revitalization Zone (LARZ); or

- Items listed above passed through to you from S corporations, trusts, partnerships, or limited liability companies (LLCs).

**Do not** make entries in either column B or column C for interest you earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities.

Enter in column C, the interest you identified as tax-exempt interest on your federal Form 1040 (or 1040A), line 8b; or Form 1040NR, line 9b; **and** which you received from:

- Non-California state bonds;
- Non-California municipal bonds issued by a county, city, town, or other local government unit;
- Obligations of the District of Columbia issued after December 27, 1973; and
- Non-California bonds if the interest was passed through to you from S corporations, trusts, partnerships, or LLCs.

#### Line 9 – Ordinary dividends

Generally, you will not make an adjustment on this line. However, certain mutual funds are qualified to pay “exempt-interest dividends” if at least 50% of their assets consist of tax-exempt government obligations. The portion of the exempt-interest dividend income that is tax-exempt for federal purposes will be shown on your annual statement from the mutual fund. The federal information will be correct for California if the exempt-interest dividends are from California state or local obligations.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference in column B.

Get FTB Pub. 1001 if you received dividend income from:

- Noncash patronage dividends from farmers’ cooperatives or mutual associations;
- A federal S corporation that is a California C corporation;
- A controlled foreign corporation;
- Distribution of pre-1987 earnings from S corporations; or
- Undistributed capital gains for regulated investment company (RIC) shareholders.

#### Line 10 – State Tax Refund

California does not tax the state income tax refund you received in 2000. Enter in column B, the amount of state tax refund you entered in column A.

#### Line 11 – Alimony Received

If you are a nonresident alien and received alimony that was not included in your federal income, enter the alimony on this line in column C. Otherwise, make no entry on this line.

#### Line 12 – Business Income or (Loss)

You may need to adjust federal business income or loss you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis you use to figure California depreciation may be different from the amount used for federal purposes. Adjustments are figured on form FTB 3885A, Depreciation and Amortization Adjustments, and are most commonly necessary because of the following:

- **Before January 1, 1987,** California did not allow depreciation under the federal accelerated cost recovery system. You must continue

to figure California depreciation for those assets in the same manner as prior years.

- **On or after January 1, 1987,** California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. Refer to the bulleted list below.

Use form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the total adjustment for line 12 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule C.

Use form FTB 3885A to figure the total adjustment for line 12 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses); or
- Passive activities that produce gains.

Get FTB Pub. 1001 for more information about:

#### Income related to:

- Business, trade, or profession carried on within California that is an integral part of a unitary business carried on both within and outside California; or
- Pro-rata share of income received from a controlled foreign corporation by a U.S. shareholder.

#### Basis adjustments related to:

- Property acquired prior to becoming a California resident;
- Sales or use tax credit for property used in an EZ, Local Agency Military Base Recovery Area (LAMBRA), Targeted Tax Area (TTA), or former LARZ;
- Reduced recovery periods for fruitbearing grapevines replaced in a California vineyard on or after 1/1/92 as a result of phylloxera infestation or on or after 1/1/97 as a result of Pierce’s disease;
- Expenditures for tertiary injectants;
- Property placed in service on an Indian reservation after 1/1/94, and before 12/31/2003;
- Amortization of pollution control facilities;
- Discharge of real property business indebtedness;
- Employer-paid child care program;
- Employer-paid child care plan;
- Vehicles used in an employer-sponsored ridesharing program;
- An enhanced oil recovery system;
- The cost of making a business accessible to disabled individuals;
- Property for which you received an energy conservation subsidy from a public utility on or after 1/1/95, and before 1/1/97; or
- Research and experimental expenditures.

#### Business expense deductions related to:

- Wages paid in an EZ, LAMBRA, Manufacturing Enhancement Area (MEA), or TTA;
- Certain employer costs for employees who are also enrolled members of Indian tribes;
- Abandonment or tax recoupment fees for open-space easements and timberland preserves;
- Club dues or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry, or national origin;
- Lobbying expenses denied under IRC Section 162;
- Business located in an EZ, LAMBRA, or TTA;
- Research expense;

- Employer wage expense for the Work Opportunity Credit and Welfare-to-Work Credit;
- Pro-rata share of deductions received from a controlled foreign corporation by a U.S. shareholder;
- Interest paid on indebtedness in connection with company-owned life insurance policies;
- Premiums paid on life insurance policies, annuities or endowment contracts issued after 6/8/97 where the owner of the business is directly or indirectly a policy beneficiary; or
- Meals provided to more than 50% (but less than 100%) of employees on the employment premises for the employer's convenience.

#### Line 13 –Capital Gain or (Loss)

Generally, you will not make any adjustments on this line if you do not have any of the items listed below. Use Schedule D, California Capital Gain or Loss Adjustment, only if you have differences from:

- Gain on the sale of qualified small business stock which qualifies for the gain exclusion under IRC Section 1202;
- Basis amounts resulting from differences between California and federal law in prior years;
- Gain or loss on stock and bond transactions;
- Installment sale gain reported on form FTB 3805E, Installment Sale Income;
- Gain on the sale of personal residence where depreciation was allowable;
- Flow-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs; or
- Capital loss carryover from your 1999 California Schedule D.

Get FTB Pub. 1001 for more information about:

- Disposition of S corporation stock acquired before 1987;
- Gain on the sale or disposition of a qualified assisted housing development to low-income residents or to specified entities maintaining housing for low-income residents;
- Undistributed capital gain for regulated investment company (RIC) shareholders;
- Gain or loss on the sale of property inherited before 1/1/87; or
- Capital loss carrybacks.

#### Line 14 –Other Gains or (Losses)

Generally, you will not make any adjustments on this line. However, the California basis of your other assets may not be the same as the federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property.

#### Line 15 –Total IRA Distributions

Generally, you will not make any adjustments on this line. However, there may be significant differences in the taxable amount of a distribution (including a distribution from conversion of a traditional IRA to a Roth IRA), depending on when you made your contributions to the IRA. Differences may also occur if you changed your residency status after you first began making contributions to your IRA or if your California IRA deductions were different from your federal deductions because of differences between California and federal self-employment income.

If the taxable amount using California law is:

- Less than the amount taxable under federal law, enter the difference in column B; or
- More than the amount taxable under federal law, enter the difference in column C.

Get FTB Pub. 1005 for more information and worksheets for figuring the adjustment to enter on this line, if any.

**Education (Ed) IRA** – If column A includes a taxable distribution from an Ed IRA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs.

#### Line 16 –Total Pensions and Annuities

Generally, you will not make any adjustments on this line. However, if you received tier 2 railroad retirement benefits or partially taxable distributions from a pension plan, you may need to make an adjustment.

If you received a federal Form RRB 1099-R for railroad retirement benefits and included all or part of these benefits in taxable income in column A, enter the taxable benefit amount in column B.

If you began receiving a retirement annuity between 7/1/86 and 1/1/87, and elected to use the three-year rule for California purposes and the annuity rules for federal purposes, enter in column C the amount of the annuity payments you excluded for federal purposes.

#### Line 17 –Rental Real Estate, Royalties, Partnerships, S corporations, Trusts, etc.

You may need to adjust your federal income or loss that you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis you use to figure California depreciation may be different from the recovery period or amount used for federal purposes. For more information, see the instructions for Schedule CA (540NR), line 12.

Use form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the total adjustment for line 17 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule E.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 17 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses); or
- Passive activities that produce gains.

**Note:** LLCs that are classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. LLPs report to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.

Get FTB Pub. 1001 for more information about accumulation distributions to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

#### Line 18 –Farm Income or Loss

You may need to adjust the federal income or loss you report in column A because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the

amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

Use form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the total adjustment for line 18 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule F.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 18 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses); or
- Passive activities that produce gains.

#### Line 19 –Unemployment Compensation

California does not tax unemployment compensation. Enter on line 19, column B, the amount of unemployment compensation shown in column A.

#### Line 20 –Social Security Benefits

California does not tax social security benefits or equivalent tier 1 railroad retirement benefits. Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A.

#### Line 21 –Other Income

##### a. California Lottery Winnings

California does not tax California lottery winnings. Enter in column B the amount of California lottery winnings included in the federal amount on line 21 in column A.

**Note:** Do not include lottery winnings from other states. They are taxable to California.

##### b. Disaster Loss Carryover from FTB 3805V

If you have a California disaster loss carryover from your 1999 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations, enter that amount as a positive number in column B.

##### c. Federal NOL Deduction from Form 1040, line 21

If the amount on line 21 in column A includes a federal NOL deduction, enter the amount of the federal NOL deduction as a positive number in column C. Get form FTB 3805V to figure the allowable California NOL deduction.

##### d. NOL Carryover from FTB 3805V

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. Use form FTB 3805V to figure the allowable California NOL deduction, and enter it as a positive number in column B.

**Note:** If your 1999 form FTB 3805V has both disaster loss carryovers and NOL carryovers, you will need to separately state these two amounts. See line 21b, for disaster loss carryovers.

##### e. NOL Deduction from FTB 3805Z, FTB 3806, or FTB 3807

Enter in column B the total NOL deduction figured on the following forms.

- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, line 4b; or
- FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, line 2b; or
- FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Deduction and Credit Summary, line 4b.

**f. Other (describe)**

**Reward from a crime hotline.** Enter in column B the amount of a reward authorized by a government agency, that you received from a crime hotline established by a government agency or nonprofit organization and that is included in the amount on line 21 in column A.

**Note:** You may not make this adjustment if you are an employee of the hotline or someone who sponsors rewards for the hotline.

**Payments for alternative transportation (free or subsidized parking, alternative commute methods, monthly transit passes, etc.).** Enter in column B the amount that you received from your employer, other than salaries or wages, for participating in an alternative transportation method and that is included in the amount on line 21 in column A. For more information, get FTB Pub. 1001.

**Federal foreign income or housing exclusion.** Enter in column C the amount deducted from federal income on Form 1040, line 21.

**Beverage container recycling income.** Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Rebates from water agencies or suppliers.** Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Original issue discount (OID) for debt instruments issued in 1985 and 1986.** In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.

**Issuers:** Enter the difference between the federal deductible amount and the California deductible amount on line 21f in column B.

**Holders:** Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

**Foreign income of nonresident aliens.** Adjust federal income to reflect worldwide income computed under California law. Enter losses from foreign sources in column B. Enter foreign source income in column C.

**Cost-share payments received by forest landowners.** Enter in column B the cost-share payments received from the Department of Forestry and Fire Protection under the California Forest Improvement Act of 1978 or from the United States Department of Agriculture, Forest Service, under the Forest Stewardship Program and the Stewardship Incentives Program, pursuant to the Cooperative Forestry Assistance Act.

**Qualified prizes with cash options.** Enter in column C the lump-sum award or the value of an annuity awarded that was not included in federal gross income due to the special rule for cash options for receipt of qualified prizes.

**Medical Savings Account (MSA) or Medicare + Choice MSA.** If column A includes a taxable distribution from an MSA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs.

**Reparation payments for individuals who were required to perform forced or slave labor during**

**World War II.** California law provides an income exclusion for any amounts received as reparation payments paid by the German Foundation known as Remembrance, Responsibility, and the Future, or any other source of humanitarian reparations made for purposes of redressing the injustice done to persons who were required to perform slave or forced labor during World War II. Enter in column B the amount of reparation payments included in the amount on line 21.

**Line 22a –Total**

Add line 7 through line 21f in column B and column C. Enter the totals on line 22a.

**Line 22b –Balance Carried Forward**

Enter the totals from Side 1, line 22a, column B and column C.

**Line 23 through Line 30**

Do not enter adjustments on these lines. California law is the same as federal law.

**Line 31a –Alimony Paid**

If you are a nonresident alien and you did not deduct alimony on your federal return, enter the amount you paid on this line in column C.

**Line 32**

Add line 23 through line 31a in column B and column C. Enter the totals on this line in the appropriate columns.

If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 32. Enter the amount and "Form 2555" or "Form 2555-EZ" on the dotted line next to line 32.

**Line 33 –Total**

Subtract line 32 from line 22b in column B and column C. Enter the totals on this line in the appropriate column.

## Column D –Total Amounts Using California Law

Use this column to show the amount remaining after adjustments (subtractions or additions).

For each line, 7 through 33:

1. Subtract the amounts in column B from the amounts in column A.
2. Add the amounts in column C to the result of the calculation made in 1 above.
3. Enter the total in column D.

**Note:** In some cases the total on line 33 in column B or column C will be a negative number. Please read the caution note when you get to line 34.

**Line 21 –Other Income**

If you made any adjustments on line 21 in column B or column C:

- |        |  |
|--------|--|
| Step 1 | Add the adjustments in column B, lines a, b, d, e, and f.                                      |
| Step 2 | Subtract that total from line 21, column A.  |
| Step 3 | Add the adjustments in column C, lines c and f.  |
| Step 4 | Add that total to the result of Step 2: then continue as instructed above for all other lines. |

## Column E –California Amounts

In this column, identify all items of adjusted gross income derived from all sources while you were a California resident and all items of adjusted gross income derived from California sources while you were a nonresident.

At the end of this column you will compute the ratio of the California adjusted gross income (line 33, column E) to the total adjusted gross income from all sources (line 33, column D). You will use the resulting decimal amount to determine your California tax.

Refer to instructions for each line below to be sure you are including the right amounts.

**Line 7 –Wages, Salaries, Tips, Etc.**

Enter all wages, salaries, tips, and other compensation you earned while you were a California resident. And, if you performed work in California while you were a nonresident, include the portion of wages or other compensation earned in California. Airline employees and Interstate Rail and Motor Carrier employees, get FTB Pub. 1031 for more information.

**Line 8 –Taxable Interest Income**

Enter the interest that you received while you were a California resident. For more information, refer to the instructions for column B and column C, line 8.

**Line 9 –Ordinary Dividends**

Enter all dividends you received while you were a California resident. Include dividends you received from federal S corporations that have elected to be treated as C corporations for California tax purposes.

**Line 11 –Alimony Received**

Enter the alimony that you received while you were a California resident.

**Line 12 –Business Income or (Loss)**

Enter the total amount of profits or losses (including losses allowed from passive activities) from all businesses you conducted while you were a California resident **and** from all businesses you conducted in California while you were a nonresident of California.

If, as a nonresident you derived income from a business, trade, or profession conducted partly within California and partly outside California, only income from the part conducted within California is considered California source income that you must report on this line in column E. If there is any business relationship between the parts within and outside California (flow of goods, etc.), you must apportion the gross income or loss from the entire business. To determine the portion of income or loss from businesses engaged in multistate activities that you must report in column E, use the apportionment formula described in Schedule R, Apportionment and Allocation of Income.

**Line 13 –Capital Gain or (Loss)**

Enter your capital gains and losses from all sources while you were a California resident and from sources within California while you were a nonresident.

**Line 14 –Other gains or (losses)**

Enter your gains or losses (including losses allowed from passive activities) from all sources while you were a resident and from sources within California while you were a nonresident.

**Line 15 –Total IRA Distributions (Taxable Amount)**

Enter only the taxable portion of IRA distributions you received while you were a California resident. California does not tax qualified retirement income received by a nonresident after December 31, 1995. For more information, get FTB Pub. 1005, Pension and Annuity Guidelines. Include regular distributions, premature distributions, and any other money or property you received from your IRA account or annuity. The entry you make on line 15 is determined by:

- A change in your residency status during 2000, in the case of traditional IRAs and Roth IRAs; and
- Your residency status at the time you received the distribution, in the case of an Education (Ed) IRA.

**Traditional and Roth IRA** – Refer to FTB Pub. 1005.

**Ed IRA** – If you reported a taxable Ed IRA distribution in column A, and you were a:

- Resident when you received it, include the entire Ed IRA distribution on line 21, column E. Then get form FTB 3805P, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs, to figure any additional tax due on this amount.
- Nonresident when you received it, enter zero on line 21, column E.

**Line 16 –Total Pensions and Annuities (Taxable Amount)**

Enter the portion of your taxable pension and annuity income you received only while you were a resident of California. California does not tax qualified retirement income received by a nonresident after December 31, 1995. For more information, get FTB Pub. 1005, Pension and Annuity Guidelines.

**Line 17 –Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.**

Enter your 2000 profit or loss (including losses allowed from passive activities) from all rents, royalties, partnerships, S corporations, LLCs, estates, and trusts that occurred while you were a California resident **and** profit or loss related to property or business located in California while you were a nonresident of California.

If you owned an interest in a partnership, an LLC characterized as a partnership, or an S corporation and you were a California resident on the last day of the partnership's or LLC's taxable year or S corporation's taxable year, you must include your entire distributive share of the partnership's or LLC's profit or loss, or your entire pro-rata share of the S corporation's profit or loss.

If you were a nonresident of California on the last day of the partnership's or LLC's taxable year, or S corporation's taxable year, include the portion of your distributive share of the profit or loss derived from California sources from the partnership or the LLC, or your pro-rata share of the profit or loss derived from California sources from the S corporation.

Your Schedule K-1 (100S, 541, 565, or 568) will indicate the amount of partnership, S corporation, estate, trust, or LLC profit or loss derived from California sources.

**Line 18 –Farm Income or (Loss)**

Enter your profit or loss (including losses allowed from passive activities) from all farming activity while you were a California resident **and** for

farming activity conducted in California while you were a nonresident of California.

**Line 21 –Other Income**

Enter the amounts derived from California sources or which you accrued, earned, or received while you were a California resident that are not included in line 7 through line 18 of column E.

**Medical Savings Account (MSA) or Medicare + Choice MSA Distribution** – If you reported a taxable MSA distribution in column A, the amount you must include on line 21 depends on your residency status at the time you received the distribution. If you were a:

- **Resident**, include the entire MSA distribution on line 21, column E. Then get form FTB 3805P, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs, to figure any additional tax due on this amount.
- **Nonresident**, enter zero on line 21, column E.

**Line 22a –Total**

Add line 7 through line 21 in column E. Enter the result on this line.

**Line 22b –Balance Carried Forward**

Enter the total from Side 1, line 22a, column E on this line.

**Line 23 and Line 29 –IRA, Keogh, SEP, and SIMPLE Deduction**

The amount of the California deduction for IRA, Keogh, SEP, and SIMPLE contributions is the same as the federal deduction. However, the deduction may be limited by your California compensation or by your California self-employment income.

**Example:** Susan moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her federal return. Her California wages were \$500. Her allowable deduction is the lesser of:

- The federal deduction of \$2,000; or
- The California compensation of \$500.

Therefore, she must enter \$500 on line 23 of column E. She will have made no entry in column B or column C.

Keogh and SEP deductions are limited to a percentage of the federal deduction. That percentage is the ratio of:

$$\frac{\text{Self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Get FTB Pub. 1005 for more information.

**Line 24 –Student Loan Interest Deduction**

California law and federal law are the same for the student loan interest deduction. However, for purposes of figuring California sourced income, the deduction will be limited to a percentage of the federal deduction. That percentage is the ratio of:

$$\frac{\text{CA AGI (column E, line 33) figured without the deduction}}{\text{Total AGI (column D, line 33) figured without the deduction}} = \text{California ratio}$$

Multiply your federal deduction by the California ratio described above and enter the result on line 24, column E.

**Line 25 –Medical Savings Account (MSA) Deduction**

The amount of the California deduction for an MSA contribution is the same as the federal deduction.

However, it is limited to a percentage of the federal deduction. The percentage is the ratio of:

$$\frac{\text{Compensation* reported in column E}}{\text{Compensation* reported in column D}} = \text{California ratio}$$

\*Compensation includes self-employment income.

Multiply your federal deduction by the California ratio described above and enter the result on line 25, column E.

**Line 26 –Moving Expenses**

California law and federal law are the same for moving expenses. If you moved:

- Into California in connection with your new job, enter the amount from column A, line 26, in column E, line 26.
- Out of California in connection with your new job, enter zero on line 26.

**Exception:** If you moved out of California in connection with your new job and received compensation from that job attributable to a California source, your moving expense adjustment will be limited by the ratio of California source compensation from the new job to total compensation from the new job.

**Line 27 –One-half of Self-Employment Tax**

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

Self-employment income reported in column A	+	Self-employment income reported in column A
from all sources while a CA resident		from CA sources while a nonresident
Total self-employment income reported in column A		

Multiply your federal deduction by the California ratio described above and enter the result on line 27, column E.

**Line 28 –Self-Employed Health Insurance Deduction**

If you claimed a deduction in column A for payments you made to a health insurance plan while you were self-employed, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

$$\frac{\text{Total self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Multiply your California deduction on line 28, column D by the California ratio described above and enter the result on line 28, column E.

**Line 30 –Penalty on Early Withdrawal of Savings**

Enter the interest penalties charged to you while you were a California resident.

**Line 31a –Alimony Paid**

Enter alimony or separate maintenance payments that you made while you were a California resident.

**Line 32** – Add line 23 through line 31a in column E. Enter the result on this line.

**Line 33 –Total**

Subtract line 32 from line 22b in column E. This is your California adjusted gross income (AGI). Enter



the result on this line. Also enter this amount on Form 540NR, Side 1, line 20.

#### Line 34 –Ratio

Ratio =  $\frac{\text{California AGI}}{\text{Total AGI from all sources}}$

Divide the amount on line 33, column E by the amount on line 33, column D. Enter the result on this line and on Form 540NR, Side 1, line 25a.

Also, transfer the amounts from:

- Line 33, column B to Form 540NR, Side 1, line 14;
- Line 33, column C to Form 540NR, Side 1, line 16; and
- Line 33, column E to Form 540NR, Side 1, line 20.

**Caution:** If the amount on Schedule CA (540NR) line 33:

- **Column B** is a negative number, do not transfer it to Form 540NR, line 14. Instead, transfer the amount as a positive number to Form 540NR, line 16; or
- **Column C** is a negative number, do not transfer it to Form 540NR, line 16. Instead, transfer the amount as a positive number to Form 540NR, line 14.

## Specific Line Instructions for PART III Adjustments to Federal Itemized Deductions

#### Line 35 –Federal Itemized Deductions

Enter the total amount of itemized deductions from your federal Schedule A (Form 1040), lines 4, 9, 14, 18, 19, 26, and 27 or Schedule A (Form 1040NR), lines 3, 7, 8, 15, and 16.

**Important:** If you did not itemize deductions on your federal tax return but will itemize deductions on your California return, first complete federal Schedule A. Then complete Schedule CA (540NR), Part III, line 35 through line 40. Attach a copy of federal Schedule A to your Form 540NR.

#### Line 36 –State, Local, and Foreign Income Taxes

Add the following amounts from federal Schedule A (Form 1040) and enter on line 36:

- Line 5, state and local income tax (including limited partnership tax and income or franchise tax paid by corporations), and State Disability Insurance (SDI); and
- Line 8, foreign income taxes.

#### Line 38 –Other Adjustments

##### Adoption-related Expenses

If you deducted adoption-related expenses on your federal Schedule A and are claiming the adoption cost credit on your Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 38.

##### Mortgage Interest Credit

If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), be sure to increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 38.

##### Nontaxable Income Expenses

If, on federal Schedule A, you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 38.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 38.

#### Employee Business Expenses:

If you completed federal Form 2106, Employee Business Expense (or Form 2106-EZ), also complete Form 2106 (or Form 2106-EZ) using California amounts. Specific differences between California and federal law are shown below.

- **Assets placed in service before 1/1/87:** Figure expenses based on California law; and
- **Federal employees on temporary duty status:** California does not conform to the federal provision that expanded temporary duties to include prosecutive duties, in addition to investigative duties. Therefore, travel expenses paid or incurred in connection with temporary duty status (exceeding one year), **involving the prosecution (or support of the prosecution) of a federal crime**, should not be included when completing Form 2106 (or Form 2106-EZ) using California amounts.

Compare line 10 on both Forms 2106 (or line 6 if using Forms 2106-EZ). If the federal amount is larger, enter the difference as a negative number on line 38. If the California amount is larger, enter the difference as a positive number on line 38.

#### Investment Interest Expense

Your California deduction for investment interest expense may be different from your federal deduction. You must use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 38.

#### Gambling Losses

California Lottery losses are not deductible for California. Enter the amount of California Lottery losses shown on federal Schedule A as a negative number on line 38.

#### Federal Estate Tax

Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A as a negative number on line 38.

#### Generation Skipping Transfer Tax

Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A as a negative number on line 38.

#### Contribution of Appreciated Stock to a Private Foundation

For contributions made during 2000, enter the difference between the fair market value of the stock and the California basis as a negative number on line 38.

#### State Legislator's Travel Expenses

Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 38.

#### Charitable Contribution Carryover Deduction.

If you are deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, enter the additional amount as a positive number on line 38.

#### Casualty and Theft Losses for Income-producing Property

California law does not conform to the federal provision that allows taking the full deduction if a casualty or a theft loss occurs for

income-producing property. For California purposes, the deduction is considered to be a miscellaneous itemized deduction and is subject to the 2% of AGI floor. If you included a casualty or theft loss from income-producing property on federal Schedule A, line 27, and if:

- Schedule A, line 26 is more than zero, then no adjustment is necessary; or
- Schedule A, line 26 is zero, then:
  1. Enter the total of the amounts on your federal Schedule A, line 26 and line 27 here ..... 1 \_\_\_\_\_
  2. Reduce Schedule A, line 27 by the amount of the casualty and theft loss deduction and enter the result here ..... 2 \_\_\_\_\_
  3. Recalculate Schedule A, line 20 through line 26 by including the casualty and theft loss deduction and enter here ..... 3 \_\_\_\_\_
  4. Add line 2 and line 3. Enter the result here ..... 4 \_\_\_\_\_
  5. Subtract line 4 from line 1 and include it as a negative number on line 38. .... 5 \_\_\_\_\_

#### Line 40 –California Itemized Deductions

Is the amount on Form 540NR, line 13 more than the amount shown below for your filing status?

Single or married  
filing separate ..... \$124,246  
Married filing joint or  
qualifying widow(er) ..... \$248,494  
Head of household ..... \$186,370

**NO.** Transfer the amount from line 39 to line 40. Do not complete the worksheet below.

**YES.** Complete the Itemized Deductions Worksheet below.

## Itemized Deductions Worksheet

1. Enter the amount from Schedule CA (540NR), line 39 ... 1 \_\_\_\_\_
2. Using California amounts, add the amounts on federal Schedule A (Form 1040), line 4, line 13, and line 19 plus any gambling losses included on line 27 (or on Schedule A (Form 1040NR), line 8 plus any investment interest expense included on line 11 and any gambling losses included on line 16) ..... 2 \_\_\_\_\_
3. Subtract line 2 from line 1.  
**Note:** If the result is -0-, **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 40 ..... 3 \_\_\_\_\_
4. Multiply line 3 by 80% (.80) .... 4 \_\_\_\_\_
5. Enter the amount from Form 540NR, line 13 ..... 5 \_\_\_\_\_
6. Enter the amount shown above for your filing status ..... 6 \_\_\_\_\_
7. Subtract line 6 from line 5.  
**Note:** If the result is -0- or less **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 40 ..... 7 \_\_\_\_\_
8. Multiply line 7 by 6% (.06) ..... 8 \_\_\_\_\_
9. Compare the amounts on line 4 and line 8. Enter the smaller amount here ..... 9 \_\_\_\_\_
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule CA (540NR), line 40 ... 10 \_\_\_\_\_

# Instructions for Form FTB 3885A

## Depreciation and Amortization Adjustments

### General Information

California legislation enacted in 1998 conforms California tax law to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to most of the changes made to the IRC by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information on differences between California and federal law for the following items:

- **Amortization of certain intangibles (IRC Section 197);**
- **Qualified Indian reservation property; and**
- **Grapevines subject to Phylloxera or Pierce's disease.**

### Purpose

Use form FTB 3885A **only** if there is a difference between the amount of depreciation and amortization allowed as a deduction using California law and the amount allowed using federal law. California law and federal law have not always allowed the same depreciation methods, special credits, or accelerated write-offs. As a result, the recovery periods or the basis on which the depreciation is figured for California may be different from the amounts used for federal purposes. You will probably have reportable differences if all or part of your assets were placed in service:

- **Before 1/1/87.** California did not allow depreciation under the federal accelerated cost recovery system (ACRS), and you must continue to figure California depreciation for those assets in the same manner as in prior years.
- **On or after 1/1/87.** California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. California did not conform to all changes to federal law enacted in 1993, and this causes the California basis or recovery periods to be different for some assets.

Differences may also occur for other less common reasons, and the instructions for Schedule CA (540 or 540NR) list them on the line for the type of income likely to be affected. You may also get FTB Pub. 1001 for more information about figuring and reporting these adjustments.

If you are reporting differences for assets related to a passive activity, get form FTB 3801, Passive Activity Loss Limitations, for more information about passive activities.

Do not use form FTB 3885A to report depreciation expense from federal Form 2106, Employee Business Expenses. Instead, see the instructions for Schedule CA (540 or 540NR), line 38.

### Specific Line Instructions

**Note:** Prepare and file a separate form FTB 3885A for each business or activity on your return that has a difference between California and federal depreciation or amortization. Enter the name of the business or activity in the space provided at the top of the form. If you need more space, attach additional sheets. However, complete Part II, Election to Expense Certain Tangible Property (IRC Section 179), only once.

#### Part I Identify the Activity as Passive or Nonpassive

**Line 1** – Check the box to identify the activity as passive or nonpassive. A passive activity is any activity involving the conduct of any trade or business in which you did not materially participate. Get form FTB 3801 for more information.

If the activity is passive, use this form as a worksheet to figure the depreciation adjustment to carry to form FTB 3801. **Caution:** Beginning in 1994, and for federal purposes only, rental real estate activities of persons in real property business are not automatically treated as passive activities. California did not conform to this provision.

#### Part II Election To Expense Certain Tangible Property

You may elect to expense part of the cost of depreciable personal property used in your trade or business and certain other property described in federal Pub. 946, How to Depreciate Property. To do so, you must have purchased property, as defined in the IRC Section 179(d)(2), and placed it in service during 2000, or have a carryover of unused cost from 1999. If you elect this

deduction, you must reduce your California depreciable basis by the IRC Section 179 expense. The maximum Section 179 expense allowed for 2000 is \$20,000.

Complete the worksheet below to figure IRC Section 179 expense for California. Include all assets qualifying for the deduction because the limit applies to all qualifying assets as a group rather than to each asset individually. **Refer to federal Form 4562 for information.**

1	Maximum dollar limitation for California	1	\$ 20,000
2	Total cost of Section 179 property placed in service	2	
3	Threshold cost of Section 179 property before reduction in limitation	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-	5	
(a) Description of property		(b) Cost	(c) Elected cost
6			
7	Listed property (elected Section 179 cost)	7	
8	Total elected cost of Section 179 property. Add column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 1999	10	
11	Enter the smaller of business income (not less than -0-) or line 5	11	
12	Section 179 expense deduction for California. Add line 9 and line 10, but do not enter more than line 11. Also enter the result on FTB 3885A, line 2	12	
13	Carryover of disallowed deduction to 2001. Add line 9 and line 10. Subtract line 12 from the result	13	

### Part III Depreciation

**Line 3** – Complete column (a) through column (f) for each tangible asset or group of assets placed in service during the tax year. Be sure to use the California basis for assets on which you elected to take the Section 179 deduction. It will be the difference between line 6, column (b) and line 6, column (c) of the worksheet in Part II.

**Line 8a and Line 8b** – Are you using this form as a worksheet in connection with form FTB 3801?

**Yes** Enter the amount from line 8a or line 8b on form FTB 3801, Side 2, California Passive Activity Worksheet, column (e).

**No** Include the amount from line 8a on Schedule CA (540 or 540NR) in column B on line 12 for federal Schedule C activities; on line 17 for federal Schedule E activities; and on line 18 for federal Schedule F activities.

Include the amount from line 8b on Schedule CA (540 or 540NR) in column C on line 12 for federal Schedule C activities; on line 17 for federal Schedule E activities; and on line 18 for federal Schedule F activities.

### Part IV Amortization

**Line 9** – Complete column (a) through column (f) for intangible assets placed in service during the tax year. Be sure to use the California basis and the California recovery period.

**Line 14a and Line 14b** – Are you using this form as a worksheet in connection with form FTB 3801?

**Yes** Enter the amount from line 14a or line 14b on form FTB 3801, Side 2, California Passive Activity Worksheet, column (e).

**No** Include the amount from line 14a on Schedule CA (540 or 540NR) in column B on line 12 for federal Schedule C activities; on line 17 for federal Schedule E activities; and on line 18 for federal Schedule F activities.

Include the amount from line 14b on Schedule CA (540 or 540NR) in column C on line 12 for federal Schedule C activities; on line 17 for federal Schedule E activities; and on line 18 for federal Schedule F activities.

# Instructions for California Schedule D

## California Capital Gain or Loss Adjustment

### General Information

California legislation enacted in 1998 conforms California tax law to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to most of the changes made to the IRC by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). For example, California does not conform to the federal reduced capital gains tax rates. California taxes capital gains at the same tax rate as other types of income.

**Note:** California law now conforms to federal law for the Section 179 expense deduction. For 2000, the maximum amount is \$20,000.

### Purpose

Use California Schedule D **only** if there is a difference between your federal capital gains and losses and your California capital gains and losses associated with the following:

- Gain on the sale of qualified small business stock which qualifies for the gain exclusion under IRC Section 1202;
- Disposition of property that was expensed or depreciated at some time during the period you owned it; California and federal depreciation and property expensing methods were different before 1987 and after 1/1/93, and caused a difference between the California and federal basis;
- Gain or loss on stock and bond transactions;
- Installment sale gain reported on form FTB 3805E, Installment Sale Income;
- Gain on the sale of personal residence where depreciation was allowable;
- Flow-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs;
- Distributed and undistributed capital gain dividends;
- Gain from involuntary conversion of capital assets not held for business profit; or
- Capital loss carryover from your 1999 California Schedule D.

For more information about the following, get FTB Pub. 1001:

- Disposition of property inherited before 1987;
- Disposition of S corporation stock acquired before 1987;
- Gain on the sale or disposition of a qualified assisted housing development to low-income residents or to specific entities maintaining housing for low-income residents; or
- Capital loss carryback.

**Exclusion of Gain on Qualified Small Business Stock.** California law (R&TC Section 18152.5) provides an exclusion (similar to the federal exclusion under IRC Section 1202) of 50% of the gain on the sale of qualifying small business stock originally issued after 8/10/93 that was held for more than 5 years. However, for California purposes, 80% of the issuing corporation's payroll must be attributable to employment located within California, and at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California. See the Specific Line Instruction for Line 1b.

**Installment Sales.** If you sold property at a gain (other than publicly traded stocks or securities) and you will receive a payment in a tax year after the year of sale, you must report the sale on the installment method unless you elect not to do so. Get form FTB 3805E. Also, use that form if you received a payment in 2000, for an installment sale made in an earlier year. **Note:** You may elect not to use the installment sale method for California by reporting the entire gain on Schedule D (or Schedule D-1 for business assets) in the year of the sale and filing your return on or before the due date.

**At-Risk Rules and Passive Activity Limitations.** If you dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, get and complete federal Form 6198, At-Risk Limitations, using California amounts to figure your California deductible loss under the at-risk rules. Once a loss becomes allowable under the at-risk rules, it becomes subject to the passive activity rules. Get form FTB 3801, Passive Activity Loss Limitations.

### Specific Line Instructions

**Note:** If you have gain on the sale of qualified small business stock that qualifies for the federal Section 1202 exclusion, go to the instructions for line 1b.

**Line 1a –List each capital asset transaction.**

**Column (a) –Description of Property.** Describe the asset you sold or exchanged.

**Column (b) –Sales Price.** Enter in this column either the gross sales price or the net sales price. If you received a Form 1099-B, 1099-S, or similar statement showing the gross sales price, enter that amount in column (b). However, if box 2 of Form 1099-B indicates that gross proceeds less commissions and option premiums were reported to IRS, enter that net amount in column (b). If you entered the net amount in column (b), do not include the commissions and option premiums in column (c).

**Column (c) –Cost or Other Basis.** In general, the cost or other basis is the cost of the property plus purchase commissions and improvements minus depreciation, amortization and depletion. Enter the cost or adjusted basis of the asset for California purposes. Use your records and California tax returns for years before 1987 to determine the California amount to enter in column (c). If you used an amount other than cost as the original basis, your federal basis may be different from your California basis. Other reasons for differences are:

#### Depreciation Methods and Property Expensing

Before 1987, California law did not allow the use of ACRS and did not allow the use of an asset depreciation range 20% above or below the standard rate. Before 1999, California had different limits on the expensing of property under IRC Section 179. California law permits rapid write-off of certain property such as solar energy systems, pollution control devices, and property used in an Enterprise Zone, LAMBRA, Targeted Tax Area, or LARZ.

**Inherited Property** – The California basis of property inherited from a decedent is generally fair market value (FMV) at the time of death. If you acquired community property as a surviving spouse, get FTB Pub. 1039, Basis of Property –Decedent/Surviving Spouse, for more information.

**S Corporation Stock** – Prior to 1987, California law did not recognize S corporations and your California basis in S corporation stock may differ from your federal basis. In general, your California basis will be cost-adjusted for income, loss, and distributions received after 1986, while your stock was California S corporation stock. Your federal basis will be cost-adjusted for income, loss, and distributions received during the time your stock qualified for federal S corporation treatment.

**Special Credits** – California law authorizes special tax credits not allowed under federal law or computed differently under federal law. In many instances if you claimed special credits related to capital assets, you must reduce your basis in the assets by the amount of credit.

Other adjustments may apply differently to the federal and California basis of your capital assets. Figure the original basis of your asset using the California law in effect when the asset was acquired, and adjust it according to provisions of California law in effect during the period of your ownership.

**Line 1b –Section 18152.5 Exclusion. If the gain qualifying for the IRC Section 1202 exclusion also qualifies for the California exclusion under R&TC Section 18152.5:** Enter in column (a) "Section 18152.5 Exclusion." Complete column (b) and column (c) according to the instructions for line 1a. Enter in column (d) the amount of gain that qualifies for the California exclusion. Enter in column (e) the entire gain realized. **If the gain qualifying for the IRC Section 1202 exclusion does not qualify for the California exclusion:** Complete column (a), column (b), and column (c) according to the instructions for line 1a. Enter -0- in column (d) and enter the entire gain realized in column (e).

**Line 3 –Capital Gain Distributions.** If you receive federal Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, from a mutual fund, do not include the **undistributed** capital gain dividends on Schedule D. If you receive federal Form 1099-DIV, Dividends and Distributions, enter the amount of **distributed** capital gain dividends.

**Line 6 –1999 California Capital Loss Carryover.** Enter the amount of your 1999 California net capital loss that was more than the loss limitation.

**Line 8 –Net Gain or Loss.** If the amount on line 4 is more than the amount on line 7, subtract line 7 from line 4. Enter the difference as a gain on line 8.

If the amount on line 7 is more than the amount on line 4, subtract line 4 from line 7 and enter the difference as a loss on line 8.

Use the worksheet on this page to figure your capital loss carryover to 2001.

**Line 9** – If line 8 is a net capital loss, enter the smaller of the loss on line 8 or \$3,000 (\$1,500 if you are married filing a separate return).

**Line 12a** – Enter the difference on line 12a and on Schedule CA (540 or 540NR), line 13, column B.

**For example:**

**Loss on line 10 is less than loss on line 11.**

Federal loss on line 10 is	\$1,000
California loss on line 11 is	\$2,000
Subtract line 10 from line 11	\$1,000

**Gain on line 10 and loss on line 11.**

Federal gain on line 10 is	\$3,000
California loss on line 11 is	\$3,000
Add line 10 and line 11	\$6,000

**Line 12b** – Enter the difference on line 12b and on Schedule CA (540 or 540NR), line 13, column C.

**For example:**

**Loss on line 10 is more than loss on line 11.**

Federal loss on line 10 is	\$2,000
California loss on line 11 is	\$1,000
Subtract line 11 from line 10	\$1,000

**Loss on line 10 and gain on line 11.**

Federal loss on line 10 is	\$2,000
California gain on line 11 is	\$5,000
Add line 10 and line 11	\$7,000

#### California Capital Loss Carryover Worksheet

1. Loss from Schedule D, line 11, stated as a positive number	1
2. Amount from Form 540 or Form 540NR, line 17	2
3. Amount from Form 540 or Form 540NR, line 18	3
4. Subtract line 3 from line 2. If less than zero, enter as a negative amount	4
5. Combine line 1 and line 4. If less than zero, enter -0-	5
6. Loss from Schedule D, line 8	6
7. Enter the smaller of line 1 or line 5	7
8. Subtract line 7 from line 6. This is your capital loss carryover to 2001	8